

Section 1

Audit framework and regulation

CREATING GREAT OUTCOMES

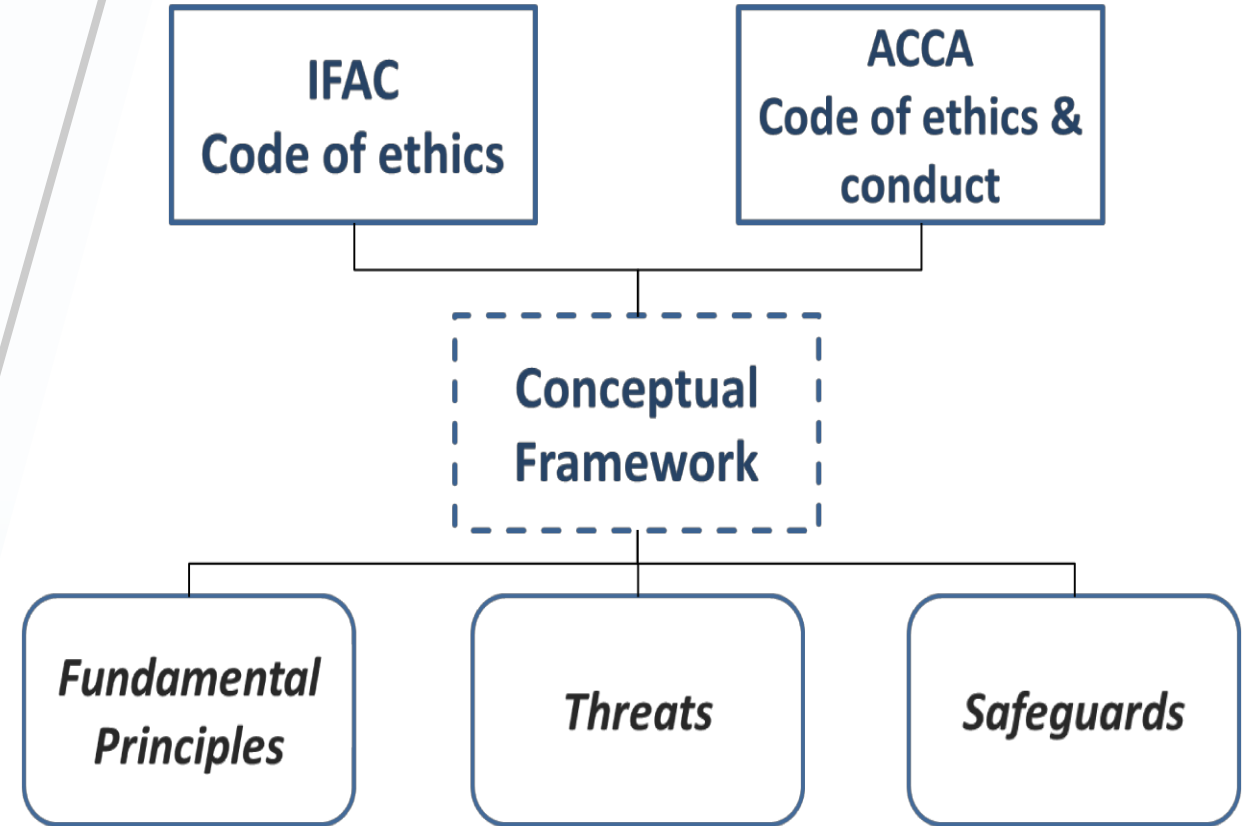
through professional qualification training
and study abroad services and preparation

1.4 Professional Ethics and ACCA's Code of Ethics and Conduct

4.1 Fundamental principles

*In order to be trusted the auditor needs to be **independent** of their client*

“Freedom from situations and relationships where objectivity would be perceived to be impaired by a reasonable and informed third party”---independence



The need for professional ethics

Fundamental principles

Objectivity

*A professional accountant should **be fair** and **not allow personal bias, conflict of interest** or influence of others to **override objectivity**.*

THE FUNDAMENTAL PRINCIPLES



Objectivity

Professional behaviour

Professional competence and due care

Integrity

Confidentiality

Fundamental principles

Integrity

*A professional accountant should be **honest and straightforward** in performing professional services.*

THE FUNDAMENTAL PRINCIPLES



Objectivity
Professional behaviour
Professional competence and due care
Integrity
Confidentiality

Fundamental principles

Professional competence and due care

When performing professional services, a professional accountant should show competence and duty of care by keeping up-to-date with developments in practice, legislation and techniques.



Fundamental principles

Confidentiality ☆☆☆ 保密性

- should not disclose any information to **third parties** without proper and specific authority or unless there is a legal or professional right or duty to disclose
- should not be used for personal advantage

THE FUNDAMENTAL PRINCIPLES

Objectivity
Professional behaviour
Professional competence and due care
Integrity
Confidentiality

Fundamental principles

Professional behaviour

*A professional accountant should act in a manner consistent with the **good reputation of the profession** and **refrain from any conduct** which might **bring discredit to the profession**.*

THE FUNDAMENTAL PRINCIPLES

Objectivity

Professional behaviour

Professional competence and due care

Integrity

Confidentiality

Confidentiality

Duty to disclose *Obligatory responsibility*

- Breaches of specific laws to public authority, e.g. **money laundering** 洗钱
- A **court order** has been obtained
- Required by ACCA or another **professional body**

inform appropriate organizations.

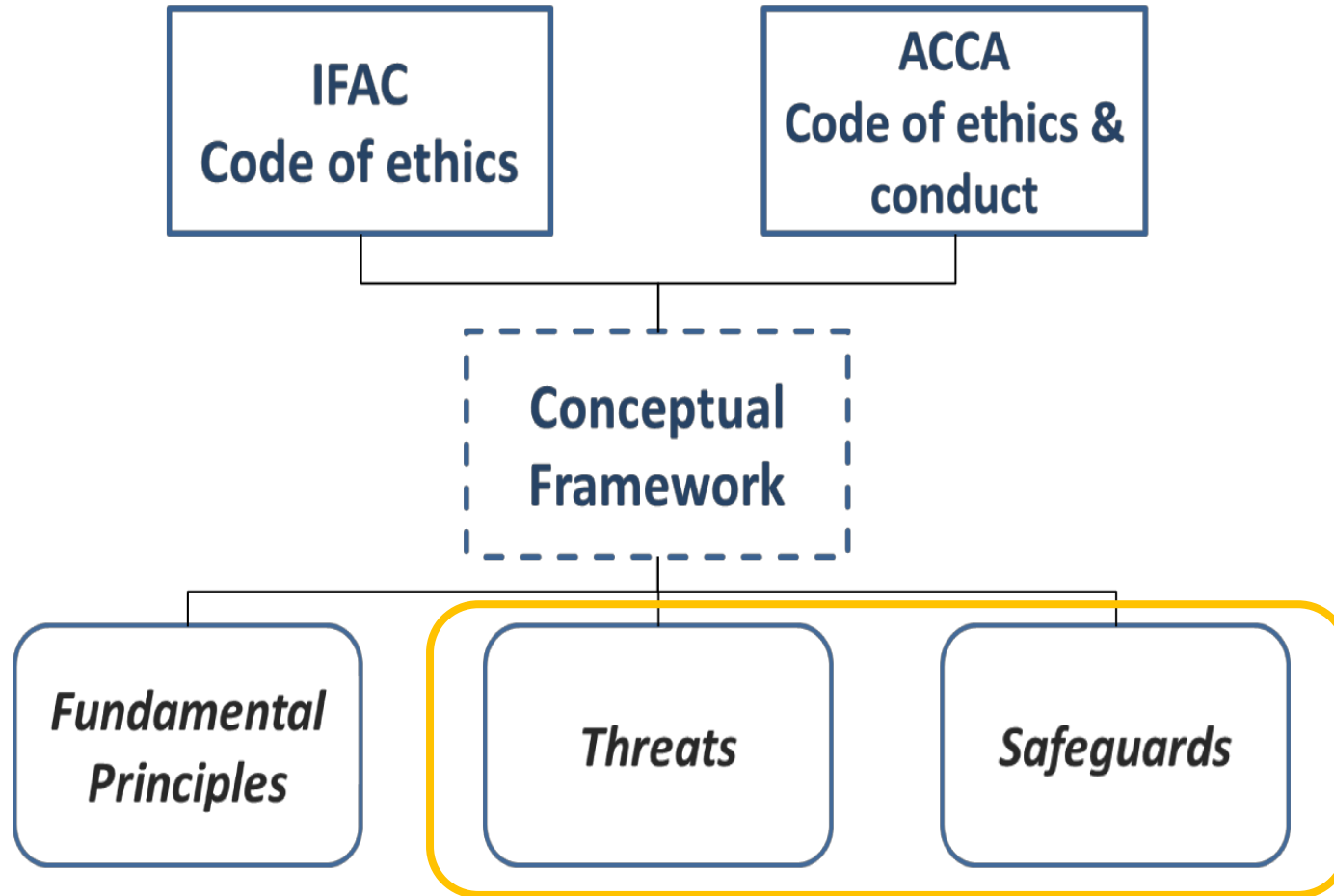
Right to disclose *Voluntary disclosure*

- Breaches of regulations to a **non-governmental regulatory** body, e.g. FSA
- To **protect** a member or firm's interests
- The **client** has given their **consent**
- It is in the **public interest**

Practice question

- A member signed the audit report of a company without conducting any audit work. *Integrity, honest and straightforward*
- A member failed to advise a client to have an audit when an audit was required by law. *Professional competence and due care*
- A member failed to reply to correspondence sent by a third party or ACCA *Professional behaviour*
- A member lost possession of a client's books and records to a third party *Confidentiality*
- A member carried out an audit of a company in which they owned shares 'without implementing appropriate safeguards' *Objectivity*

4.2 Define and apply the conceptual framework



Identify threats

→ *assess threats*

→ *apply safeguard*

a) *Eliminate the threat*
b) *Reduce the threat to an **acceptable** level* ✨

4.2 Define and apply the conceptual framework

Self interest

Self review

Familiarity

Threats to independence

Intimidation

Advocacy

Define and apply the conceptual framework



Self interest threats

- *This occurs when the audit firm or a member of the audit team has some financial or other interest in a client.*
- *A financial or other interest that will inappropriately influence the judgment or behaviour of the assurance provider.*

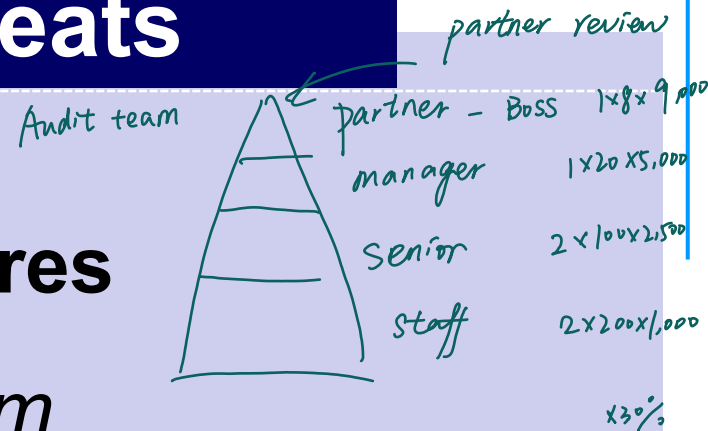
Self interest threats

Audit fee
project \times time \times charge rate fee

Threats

Owning shares

- the audit firm
- a member of the audit team
- an immediate family member of the audit team



parents
children
registered spouses

Safeguards

- dispose of the shares
 - remove the individual from the team if required
 - if a partner has such interest, the shares (must be disposed of, or the engagement declined)
- Handwritten notes:
- remove the partner \times
 - 合伙人

Self interest threats

Threats

**Close business and
personal relationships**

Safeguards

- *for business relationships,
no safeguard can reduce
this threat to an acceptable
level*
- *for personal relationships,
removing the individual from
the team*

Self interest threats

Threats

Gifts and hospitality

Safeguards

- *unless the value of the gift/hospitality is clearly insignificant/trivial/inconsequential, a firm or a member of an assurance team should not accept*
- document the offer even refused

Self interest threats

Threats

Loans and guarantees

Safeguards

- *should not enter into any loan or guarantee arrangement with a client if it is not on the commercial terms or not made in the normal course of business*
*special discount .
uncommon business*

Self interest threats

Threats

逾期 Overdue fees 应收账款

- *Treated as making a loan to a client*

Contingent fees

- *fees calculated on a particular outcome*

Safeguards

- *should not continue with any work until overdue fees are paid*
- *It is not permitted for assurance services*

Self interest threats

Threats

Fee dependency

- over-dependence on an audit client
- **15% of total fees+2 consecutive years**

Safeguards

- *Disclosure to those charged with governance at the client*
- *Perform an independent partner quality control review work*

Self interest threats

Threats

^{潜在的} Potential employment with the client

- *a member has reason to believe they may become an employee of the client*

Safeguards

- *Remove the individual from the engagement*
- *Perform an independent review of any judgments made by that individual*
- *a key partner should not accept a key management position of the client until at least one set of FS covering a period of at least twelve months has been issued, since the partner was involved in the audit.*

Self interest threats

Threats

Actual or threatened litigation

- *litigation could represent a breakdown in the relationship*
- *This may affect the impartiality of the auditor.*

Safeguards

- *the firm must resign from or decline the audit*
- *may be possible to continue other assurance engagement*

Define and apply the conceptual framework

Self review threats

- Where *non-audit work* is provided to an audit client and is then subject to audit, the auditor will be unlikely to admit to *errors* in their own work, or may not identify the errors in their own work.



Self review threats

Threats

- Accounting and bookkeeping services
- Taxation services

Which influence Financial Statement

Safeguards

- Auditors should **not** perform accounting and bookkeeping services, taxation services for listed clients, unless it is an emergency 上市公司
- Where services are provided to audit clients, separate engagement teams must be used 两个独立的团队
最保险的是聘用两家公司,在法律层面上最保险。

Self review threats

Threats

- **Valuation service**

IAS16 估值服务

land : market value → Valuation Services
revaluation report

Valuation → 固定资产

other comprehensive income

Safeguards

- *For valuation services for listed audit company, if the valuation of matters that are **material** to FS, the services should **not be provided**.*

Self review threats

Threats

- Internal audit services

Safeguards

- *Internal audit services for a listed audit client where the service relates to internal controls over financial reporting, financial accounting system, or in relation to amounts or disclosures that are **material** to Financial Statements should **not be provided**.*

Self review threats

Threats

- **Client staff joins audit firm**

Finance Manager 加入 audit firm 相当于审自己的工作

Safeguards

- *Individuals from a client joining an audit firm should not be involved in that client's audit until at least **two** years have elapsed.*

Define and apply the conceptual framework

Familiarity threats

- *The auditor becomes too sympathetic to or too trusting of a client and loses professional skepticism.* → 专业的怀疑态度放在：矛盾点、重大事项

Familiarity threats

Threats

Long association of senior personnel

- Same senior personnel in an engagement team over a long period may cause the auditor to become too trusting of the client.

Safeguards

- ^{轮岗} **Rotation** of senior personnel
- Independent partner or quality control **review** ^{独立质量复核}
- It is a requirement to rotate key audit partners on **listed** clients after no more than ^{上市公司} **seven** ^{七年} years

Familiarity threats

Threats

Family and other personal relationship

*A partner or employee of the firm has a family or other personal relationship with someone at the client who is able to exert **significant influence** over the subject matter.*

Safeguards

- ***Remove** the individual*
- ***Structure the engagement team** so that the individual does **not deal with** matters responsible by the close family*
- ***Decline or resign** from the engagement*

Familiarity threats

Threats

Audit staff joining the client

- *A partner or employee of the firm becomes a director or employee of an audit client.*

Safeguards

- *Reviewing the composition of the engagement team*
- *Independent partner or quality control review*

Define and apply the conceptual framework

Advocacy threats

- *Promoting the position of a client or **representing** them in some way would mean the audit firm is seen to be ‘taking sides’ with the client.*

Examples

- Auditors should not represent the client in the ^{法庭} **court** or in any ^{瓜田李下} **dispute** where the matter is material to the financial statements
- Auditors should not **negotiate** with banks, or other lenders, **on behalf of clients**
- Auditors should not **promote a share issue** for an audit client
帮客户在IPO时出审计报告,可以
参加上市成功庆功宴,可以

Define and apply the conceptual framework

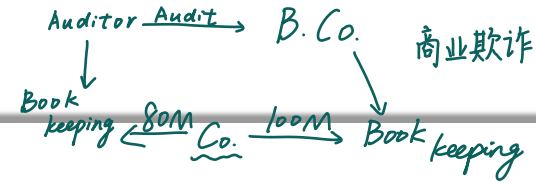
Intimidation threats

- *Actual or perceived **pressures** from the client, or attempts to exercise undue influence over the assurance provider*

Examples

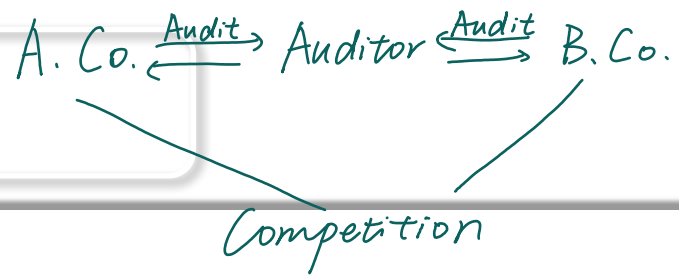
- *The safeguards to address these threats are the same as to address the other threats.*
 - ❑ *Fee dependency*
 - ❑ *Personal relationships*
 - ❑ *Audit partner joining the client*
 - ❑ *Litigation with between the audit firm and client*
缩短审计时间

4.3 Conflicts of interests



- Professional accountants should always act in the best interests of the client.
- There are two possible sources of conflict:
 - The accountant **performs a service in competition with a client.** For example, the auditors of a training company start offering bookkeeping courses. The only safeguard here is to notify the client of the conflict of interest. 把审计的选择权交给对方。
 - The accountant might have a client in a particular industry. They might then be approached by that client's biggest competitor to do their audit. This would give the auditors access to commercially sensitive information for both clients.

Conflicts of interests



Safeguards

- once a conflict is noted, you should notify both clients of the situation
- reassure the client that adequate safeguards will be implemented i.e. separate engagement teams
- Procedures to prevent access to information, e.g. physical separation of the team members
- Signed confidentiality agreement
- Regular review of the application of safeguards by an independent person.
- if adequate safeguard can't be implemented, the auditor should resign from one engagement.

Firm → Clients

Member of the firm.

Confidentiality

Practice 2011 Jun

You are an audit manager in NAB & Co, a large audit firm which specialises in the audit of retailers. The firm currently audits Goofy Co, a food retailer, but Goofy Co's main competitor, Mickey Co, has approached the audit firm to act as auditors. Both companies are highly competitive and Goofy Co is concerned that if NAB & Co audits both companies then confidential information could pass across to Mickey Co.

Required:

- (a) Explain the safeguards that your firm should implement to ensure that this conflict of interest is properly managed. (4 marks)

- (c) The audit engagement partner for Goofy Co has been in place for approximately six years and her son has just accepted a job offer from Goofy Co as a sales manager; this role would entitle him to shares in Goofy Co as part of his remuneration package. If NAB & Co is appointed as internal as well as external auditors, then Goofy Co has suggested that the external audit fee should be renegotiated with at least 20% of the fee being based on the profit after tax of the company as they feel that this will align the interests of NAB & Co and Goofy Co.

Required:

From the information in (c) explain the ethical threats which may affect the independence of NAB & Co in respect of the audit of Goofy Co, and for each threat explain how it may be reduced. (6 marks)

Homework



June 2012 Exam Q 3 (b)

Orange Financials

Hummingbird Co is a retail company planning to list on a stock exchange within the next six months, and management has been advised by the company's auditors about the need for compliance with corporate governance provisions. The financial director has two potential non-executive directors whom he is considering approaching to join the board of Hummingbird. Andrew Finch is currently an executive sales director of a listed multi-national banking company; he sits on an audit committee of another company as a non-executive director and is agreeable to being paid a fixed fee which is not related to profits. Jack Macaw is currently a finance director of a small retail company, which does not compete with Hummingbird; he has expressed an interest in a fixed seven year contract and he is the brother of Hummingbird's chief executive. Hummingbird is aware that it will need to establish an audit committee to comply with corporate governance best practice.

Which of the following best describes the aim of corporate governance?

- A、 To ensure companies are well run in the interests of their shareholders and the wider community ✓
- B、 To ensure company directors cannot commit fraud ✗
- C、 To ensure the wealth of companies contributes to the health of the economies where their shares are traded ✗
- D、 To ensure companies have a positive impact on the local community and environment ✗

Which other committees other than an audit committee are required to comply with the UK Corporate Governance Code?

- A、 Controls, remuneration and nomination committees
- B、 Risk and financial reporting committees
- C、 Nomination and risk committees
- D、 Nomination and remuneration committees

Which of the following are advantages of appointing Andrew Finch as a NED of Hummingbird?

- (1) Andrew is independent of Hummingbird ✓
 - (2) Andrew's experience in banking will complement the experience of Hummingbird board ✗
 - (3) Andrew is prepared to accept a fixed fee
 - (4) Andrew is not demanding a fixed term contract
- A、 1,2 and 3 only B、 2 and 4 only C、 1, 3 and 4 only D、 all of them

Which of the following are advantages of appointing Jack Macaw as a NED of Hummingbird?

- (1) Jack has close links to Hummingbird's chief executive ✗
 - (2) Jack's experience in retail will help him understand issues faced by the Hummingbird ✓
 - (3) Jack's financial experience will be useful if he serves on the audit committee ✓
 - (4) Jack wishes to commit to a seven-year contract ✗
- A、 1, 3 and 4 only B、 2 and 3 only C、 1, 2 and 4 only D、 all of them

Which of the following are roles of an audit committee?

- (1) To prepare the financial statements to ensure they give a true and fair view ✗
 - (2) To develop a policy on the engagement and remuneration of external auditors
 - (3) To implement effective financial reporting internal control
 - (4) To monitor and review the effectiveness of the internal audit function
- A、 1 and 2 only B、 1, 2 and 4 only C、 2 and 3 only D、 2 and 4 only

You are an audit senior of Bark & Co and have been allocated to the audit of Foliage Co (Foliage), a listed company which has been an audit client for eight years and specialises in manufacturing musical instruments. Jane Leaf was the audit engagement partner for Foliage and as she had completed seven years as the audit engagement partner, she has recently been rotated off the audit engagement. The current audit partner has suggested that in order to maintain a close relationship with Foliage, Jane Leaf should undertake the role of independent review partner this year. The total fees received by Bark & Co for last year amounted to 16% of the firm's total fee income. The current year's total fee income for audit, non-audit and tax services is expected to be greater than last year. The audit manager for Foliage has just announced that he is leaving Bark & Co to join Foliage as the financial controller.

which of the following best describes a conceptual framework approach to ethics

- A、 a set of laws for the auditor to follow ✗
- B、 a set of rules which must be strictly applied ✗
- C、 a set of guidance which the auditor can choose to apply at their own discretion ✗
- D、 a set of guidelines with which the auditor uses judgement to apply to specific circumstances

which two of the following are fundamental principles as stated in the acca's Code of Ethics and Conduct?

- (1) Objectivity
- (2) Independence
- (3) Confidentiality
- (4) Professional scepticism

A、 1 and 3 B、 3 and 4 C、 1 and 2 D、 2 and 4

what is the most appropriate response to the suggestion that Jane Leaf takes on the role of independent review partner?

- A、 Jane Leaf could take the review role immediately
- B、 Jane Leaf could take the review role immediately but additional safeguards will be required
- C、 Jane Leaf should not serve as the independent review partner for a period of at least two years
- D、 Bark&Co will need to consider resigning as auditors of Foliage

which is the least appropriate response with regard to fee income received by Bark&Co from Foliage?

- A、 Bark&Co should assess whether audit and non-audit fees would represent more than 15% of gross practice income for two consecutive years
- B、 if the recurring fee are likely to exceed 15% of annual practice income this year Bark&Co will need to resign as auditors of Foliage
- C、 if the recurring fee are likely to exceed 15% of annual practice income this year, additional consideration should be given as to whether the taxation and non-audit assignments should be undertaken by the firm
- D、 if the fees do exceed 15% then this should be disclosed to those charged with governance at Foliage

which ethical threat/ threats will be created as a result of the audit manager leaving to join the client

- (1) self-interest
- (2) familiarity
- (3) confidentiality
- (4) self-review ✗

A、 2 only B、 1 and 4 C、 2 and 3 D、 4 only ✗

You are the audit manager of Miranda & Co and you are planning the audit of Milberry Co, which has been an audit client for four years and specialises in manufacturing luxury handbags. The audit senior has recently resigned and is now employed as financial controller of Milberry. During the planning stage of the audit you have obtained the following information. The employees of Milberry Co are entitled to purchase handbags at a discount of 40%. The audit team has been offered the same level of staff discount. From a review of the correspondence file you note that the partner and the finance director have known each other socially for many years and in fact went on holiday together last summer with their families. As a result of this friendship the partner has not yet spoken to the client about the fee for last year's audit, 20% of which is still outstanding.

which is the most appropriate response with respect to the discount by the audit team?

- A、 the discount may be accepted as it is the same as that offered to the client's employees x
- B、 the discount should be rejected as it is not a modest monetary amount
- C、 the discount should be rejected as gifts or hospitality are not acceptable per the ACCA Code of Ethics
- D、 audit manager approval must be obtained before the discount is accepted x

(不定项) which of the following threats to objectivity does the review of the correspondence file identify?

- A、 self-interest
- B、 intimidation
- C、 advocacy
- D、 familiarity

which is the most appropriate response to the outstanding fees?

- A、 the auditor should resign from the client
- B、 the auditor should report the client to ACCA
- C、 the auditor can continue working for the client but should ensure that the audit firm's credit control department are informed of the outstanding fees
- D、 no work should be performed until either payment is made or repayment plan agreed

which of the following threats to objectivity does the resignation of the audit senior and subsequent employment with Milberry create?

- (1) familiarity
- (2) self-review

A、 1 B、 2 C、 both 1 and 2 D、 neither 1 and 2

(不定项) which of the following threats to objectivity does the offer of the discount create?

A、 self-interest B、 self-review C、 advocacy

You are an audit senior of YHT & Co and have worked on the external audit of BJM Co (BJM), an unlisted company, since your firm was appointed external auditor two years ago.

BJM owns a chain of nine restaurants and is a successful company. BJM has always been subject to national hygiene regulations, especially in relation to the food preparation process. Non-compliance can result in a large fine or closure of the restaurant concerned.

Despite running a successful company, BJM's Board have often needed to be reminded of some fundamental principles and you often have to explain key concepts.

Which of the following statements best defines the external audit?

C A

- A、 The external audit is an exercise carried out by auditors in order to give an opinion on whether the financial statements of a company are fairly presented.
- B、 The external audit is an exercise carried out in order to give an opinion on the effectiveness of a company's internal control system. ✗
- C、 The external audit is performed by management to identify areas of deficiency within a company and to make recommendations to mitigate those deficiencies.
- D、 The external audit provides negative assurance on the truth and fairness of a company's financial statements. ✗

The Board has also struggled to differentiate between their responsibilities and those of the external auditor in circumstances such as the prevention and detection of fraud and error, and compliance with regulations.

Which of the following statements best describes YHT & Co's responsibility regarding BJM's compliance with hygiene regulations, in line with ISA 250 Consideration of laws and regulations in an audit of financial statements?

C B

- A、 YHT & Co should actively prevent and detect non-compliance with the regulations.
- B、 YHT & Co should perform specific audit procedures to identify possible non-compliance.
- C、 YHT & Co should obtain sufficient appropriate audit evidence about BJM's compliance with the regulations as they have a direct effect on the financial statements.
- D、 YHT & Co does not have any responsibility as the hygiene regulations do not have a direct effect on the financial statements.

The Board of BJM have recently notified you that the national hygiene regulations have been updated and are now much more stringent and onerous than before.

实施

卫生

With this in mind, the Board have asked your firm to conduct a review of BJM's compliance with hygiene regulations, in order to allow the Board to assess whether the appropriate processes have been implemented at each of the nine restaurants. The review is not expected to include the provision of accounting advice or the preparation of figures in the financial statements.

This work is likely to be very lucrative. Your firm has sufficient experience to undertake the above review engagement.

The partner responsible for this review has informed you that the engagement is an assurance engagement.

Which of the following would NOT have been relevant to the partner in forming this opinion?

- A、 The existence of a three-party relationship
- B、 The existence of suitable criteria
- C、 The determination of materiality
- D、 The subject matter

The partner responsible for this review engagement has asked you to tell him what level of assurance you believe YHT & Co should provide, and also what type of opinion the firm should give.

What is the level of assurance and type of opinion that can be provided on this review engagement?

- A、 Level of assurance: Reasonable Report wording: Positive
- B、 Level of assurance: Reasonable Report wording: Negative
- C、 Level of assurance: Limited Report wording: Positive
- D、 Level of assurance: Limited Report wording: Negative

The audit partner has told you that the independence threats arising from YHT & Co performing the review engagement should be monitored carefully.
Which of the following is likely to cause the audit partner most concern?

- A、 According to the ACCA Code of Ethics, YHT & Co is prohibited from providing other assurance services to an audit client.
- B、 The review engagement is likely to give rise to a self-review threat, as the outcomes of the review could form the basis of the financial statements which the audit team will audit
- C、 The lucrative nature of the review engagement may make the external audit team less inclined to require management to make adjustments or to issue a modified audit opinion, for fear of losing the review engagement.
- D、 If the new review engagement causes YHT & Co's fee income from BJM to exceed 15% of the firm's total fees, the ACCA Code of Ethics states that the new engagement must be turned down

Conoy designs and manufactures luxury motor vehicles. It is not a listed company and its shares are held equally by 12 individuals, most of whom belong to the same family. Many of these shareholders are also executive directors.

Conoy has an internal audit department, although the chief internal auditor frequently comments that Conoy's Board does not understand his reports, and does not provide sufficient support for his department and for the company's internal control systems. RWG & Co, Conoy's external auditors, have also expressed concern in this area. The Board is considering a proposal from the chief internal auditor to establish an audit committee. The committee would consist of one executive director, the chief internal auditor, and three new appointees. One appointee would have a non-executive seat on the board of directors.

(不定项) One of the shareholders, who is not an executive director, has heard about Conoy's plans to establish an audit committee. He has drawn up a list of statements which he feels the Board should review before making any decisions: Which two of the statements made by the shareholder are TRUE in relation to the establishment of the audit committee?

- A、Those remaining shareholders who are not already executive directors should be appointed as non-executive directors and should be part of the audit committee ✓
- B、The chief internal auditor should not be part of the audit committee ✓
- C、Establishing an audit committee will mean that there is a specialist group of individuals which is responsible for monitoring high quality internal controls ✓
- D、Establishing an audit committee will mean that the external audit fee will be reduced 减少 ✗

Once established, the audit committee will have many objectives. Which of the following does NOT form part of the audit committee's objectives?

- A、Safeguarding the privacy of whistleblowers 揭发者、告密者 ✓
- B、Appointing the external auditor ✗
- C、Monitoring the independence of the external auditor ✗
- D、Implementing a policy on the supply of non-audit services by the external auditor ✗

(不定项) Conoy's internal audit department is currently not well understood or supported by the Board. Which TWO of the following statements describe the main advantages of establishing an audit committee?

- A、The position of the internal audit department will be strengthened within the organisation ✓
- B、Corporate governance will be enhanced as the board of directors will report to the audit committee ✗
- C、The effectiveness of the internal audit department will be improved as the audit committee will monitor and review its performance on a regular basis ✗
- D、The workload of the internal audit department will be better managed as the audit committee will be able to minimise the extent to which the external auditors rely on the work of the internal auditors ✓

The board is considering a significant expansion of the company. However, the company's bank is concerned by the standard of financial reporting as, Conoy's finance director recently left the company. The board is delaying providing the bank with financial information until a new finance director has been appointed.

Which of the following statements best describes why having an audit committee could help Conoy raise additional finance in this situation?

- A、The independent non-executive members of the audit committee can provide guarantees to the bank concerning Conoy's financial viability ✗
- B、The audit committee will have at least one member who has relevant financial experience. This person will be able to stand in for as Conoy's finance director before a new finance director is appointed. ✗
- C、The audit committee will have at least one member who has relevant financial experience, so that they can monitor the integrity of the financial statements ✓
- D、The audit committee will review all the available evidence to substantiate information in financial reporting, thus improving the credibility of the financial statements ✗

RWG & Co, Conoy's external auditor, believes that Conoy establishing an audit committee would bring the external auditor additional benefits. Which of the following is NOT an advantage to RWG & Co of Conoy establishing an audit committee?

- A、RWG & Co would be able to report its audit findings and recommendations to an independent sub-committee
- B、RWG & Co would have a sub-committee with which it could raise issues of concern
- C、The audit committee will support RWG & Co's viewpoint in the event of any disputes with the management of Conoy
- D、The audit committee would have more time to examine RWG & Co's reports and recommendations and so provide comfort that recommendations and other matters are being considered and reviewed

You are an audit manager of Ali & Co and have just been assigned the audit of Stark Co (Stark). Stark, a listed company, provides investment advice to individuals, and is regulated by the relevant financial conduct authority.

Mr Day, a partner in Ali & Co, has been the audit engagement partner for Stark for the previous nine years and has excellent knowledge of the client. Mr Day has informed you that he would like his daughter Zoe to be part of the audit team this year; Zoe is currently studying for her first set of fundamentals papers for her ACCA qualification. In an initial meeting with the finance director of Stark, you learn that the audit team will not be entertained on Stark's yacht this year, instead, he has arranged a balloon flight costing less than one-tenth of the expense of using the yacht and hopes this will be acceptable.

Ali & Co has always carried out tax advisory work for Stark. The tax advisory services do not have an impact on the figures reported in the financial statements. The finance director has stated that he feels strongly that the firm that offers taxation services this year should charge a fee which is based on a percentage of tax saved. He also trusts that your firm will accept a fixed fee for representing Stark in a dispute regarding the amount of sales tax payable to the taxation authorities.

From a review of the information above, your audit assistant has highlighted some of the potential risks to independence in respect of the audit of Stark.

- (1) Mr Day would like his daughter Zoe to be part of the audit team
- (2) Audit team to be offered a balloon flight
- (3) Tax fee to be based on a percentage of tax saved
- (4) Firm to represent Stark in a dispute with the tax authorities

Which of the following options best identifies the valid threats to independence and allocates the threat to the most appropriate category?

- A. Advocacy: (3) and (4)
Intimidation: (3)
Self-interest: (1) and (2)
B. Advocacy: (4)
Intimidation: (3)
Self-interest: (2) and (3)
C. Advocacy: (3)
Intimidation: (3) and (4)
Self-interest: (2)
D. Advocacy: (3) and (4)
Intimidation: (1) and (4)

B

Mr Day's daughter, Zoe, is currently learning about International Standards on Auditing (ISAs) in her studies. She has asked you for clarification of the following.

Which is the correct order of the following stages involved in the development of an ISA?

- (1) Distribution of exposure draft for public comment
- (2) Consideration of comments received from the public
- (3) Approval by IAASB members
- (4) Establishment of task force to develop draft standard
- (5) Discussion of proposed standard at a public meeting

A. 1,5,4,3,2 B. 2,4,1,3,5 C. 4,5,1,2,3 D. 5,4,2,1,3

B

C

In relation to the audit team being offered a balloon ride: Which of the following actions should be taken to ensure the firm complies with ACCA's Code of Ethics and Conduct?

B

C

A. The gift may be accepted as Stark has taken appropriate measures to reduce the value of the gift compared to previous years.

B. The value of the gift should be assessed to determine whether it is of material value to the financial statements.

C. The gift should only be accepted if its value is trivial and inconsequential to the recipients.

D. Only the audit partner and audit manager should accept the gift.

In relation to the audit engagement partner holding the role for nine years:

Which of the following safeguards should be implemented in order to comply with ACCA's Code of Ethics and Conduct?

D

A. An independent review partner should be appointed to the audit

B. The audit engagement partner should be removed from the audit team but may serve as a quality control reviewer

C. Ali & Co should not audit Stark for a two year period.

D. The audit engagement partner should be removed from the audit team

Zoe is also concerned that Ali & Co might breach confidentiality were the audit firm to represent Stark in its dispute with the tax authorities.

Which of the following statements best reflects the auditor's duty of confidentiality?

- A. Auditors must never, under any circumstances, disclose any matters of which they become aware during the course of the audit to third parties, without the permission of the client.
- B. Auditors may disclose any matters in relation to criminal activities to the police or taxation authorities, if requested to do so by the police or a tax inspector
- C. Auditors may disclose matters to third parties without their client's consent if it is in the public interest, and they must do so if there is a statutory duty to do so.
- D. Auditors may only disclose matters to third parties without their client's consent if the public interest or national security is involved.

B

C

X

X

X

